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NOTES

INTERNATIONAL TRADE POLICY AND THE COMING OF PEACE

Among the few valid arguments which the protectionists occasionally exploit against the adoption of free international trade there is one to which attention at this time may be directed with especial profit. It is this: granted, as it must be, that it is better for all classes of producers in a country to specialize in the production of those commodities or goods for which their resources and their talents particularly qualify them in comparison with other countries, there must be inevitable loss and hardship upon those producers already engaged in industries in which the country has no relative advantage, in shifting to the lines of production where the only favors which need be relied upon are those of nature and hereditary endowment. It will be readily conceded that if there are industries in operation so little adapted to the country that they are unable to withstand the competition of like industries in other countries, notwithstanding the handicap under which these latter compete due to freight differentials, the adoption of a free-trade policy will involve as a necessary consequence some impairment of capital for those interested in such enterprises and certain inconvenience to those therein employed. In the case of long training in the acquirement of a special skill, which the enforced change of occupation makes useless, it will even result in very great and irreparable hardship.

It is recognized as true, alike in biology and in physics, that changes in conditions involve readjustments in functioning units. It is taken as equally true that readjustments unavoidably involve a certain amount of friction, loss, and waste. In industry no less than in biology and mechanics are these principles applicable. The question, however, cannot be thus easily dismissed. The real problem is not to determine whether such waste will occur, for that is admitted, but whether the discounted advantages to accrue in the future from the readjustment outweigh the present disadvantages in making the readjustment. Whether they do or not in any particular case will depend upon two factors: first, the amount of the anticipated future gains; second, the weight of the present burden. Protectionists, accustomed to take the

short-time point of view on these problems, habitually underestimate the first of these factors and overemphasize the second.

The point to the whole discussion, however, is precisely this, that, even making due allowance for the more sanguine temper of free-traders, there are certain objective facts peculiar to current American conditions which tend to support them in denying that the losses incident to the industrial readjustment which the establishment of a free-trade policy will occasion more than offset the probable gains from the extension of industries for which this country is better fitted. In other words, it may logically be contended that as applied to the situation which will follow the coming of peace the argument of the protectionists is discredited. The circumstances justifying this contention are the following:

The redistribution of industrial forces necessitated by the war has brought about a highly unstable equilibrium. Capital has been quite unceremoniously uprooted from long-continued uses and applied to new uses (not alone by the pressure of market conditions but also by the activities of the Conversion Division of the War Industries Board). Current increments to the capital fund have to a still higher degree had their uses dictated (by the Capital Issues Committee of the Federal Reserve Board and of the War Finance Corporation and by the Non-war Construction Section of the Priorities Division of the War Industries Board) through restrictions on the channels of investment. Taking the field of industry by and large one may say that never before has there been such a curtailment of what may be regarded as vested proprietary interests due to long-standing exploitation of particular fields. So far-reaching have been the changes in the "regular course of trade" and so pervasive has been the control over the direction of employment of new savings that worthy claims for the protection of established trade built up through a long process of persevering effort and legitimate dealings will remain few indeed. The whole field of industry has undergone and is undergoing a fundamental transformation. The chief characteristic of the existing industrial and business arrangements is, consequently, their transitoriness. Nowhere is this better recognized than among business men themselves, who, for example, in making government contracts and in fixing current prices have insisted upon it with the passion of those who speak from conviction.

Furthermore the shifting of labor from peace-time employments to war-time employments has by general admission been upon an unprecedented scale. Large sections of the working population have been compelled not only to change their jobs but to change their residences

as well. It has occasioned them no little difficulty and considerable losses. But no one denies that there will presently be a large proportion of these workers who will be compelled again to change their employment. Moreover, the re-employment of an army approaching 3,000,000 men will by itself present a problem of readjustment which is not generally regarded as mean.

The conclusion is that since the burdens of readjustment will be with us in any case and must be undertaken regardless of the international trade policy adopted, a just regard to the economic interests of all classes in the nation will lead to the inauguration of freedom of trade, which clearly tends in the long run to maximize the net income from the exploitation of our resources and the employment of our talents. Whatever force there may be in the protectionist argument that the waste and loss occasioned by the abandonment of industries which can subsist only by special privileges outweigh the advantages to be gained by specialization in doing the things we can do best, this argument obviously falls down when applied to the situation which now confronts us.

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WASHINGTON NOTES

DEMobilIZING INDUSTRY

The announcement on November 11 of the conclusion of an armistice with the German government has been the most important economic and financial occurrence since the beginning of the European War. Already it has had fundamental effects upon public finance, government control of industry, banking policies and methods, and the plans and prospects of private business. Thus far, time has not been sufficient to permit these great changes of policy to crystallize in the form of legislation, but the practical results of the peace announcement have nevertheless made themselves obvious.

From the standpoint of public finance the most direct consequence of the changed military outlook has been the reduction of \$6,000,000,000 in the official estimates of the budget for the year 1918-19 (ending June 30, 1919). This estimated reduction has been reflected in announced plans for a corresponding cut in the war-revenue bill now before the Senate Finance Committee. It will be recalled that this bill, as it came from the House of Representatives, had aimed to provide for a revenue of